

FISCAL NOTE

HB 3873

March 13, 2006

SUMMARY OF BILL: Defines “drug” and “over-the-counter-drug” as they apply to the sales and use tax law. Reduces the sales tax rate on over-the-counter (OTC) drugs from 7% to 3.5%. Increases inheritance tax by changing rate schedules applicable to Class A beneficiaries and to Class B beneficiaries in the case of decedents dying after 1988.

ESTIMATED FISCAL IMPACT:

Increase State Revenues – Net Impact – Exceeds \$4,500,000

Increase State Expenditures - \$100,000 One-Time

Assumptions:

- The Consumer Healthcare Products Association estimates that the average household spends \$185 on OTC medicines each year.
- There are approximately 2.4 million households in Tennessee.
- Annual taxable sales of OTC medicines are estimated to be \$444.0 million (2,400,000 households X \$185 = \$444.0 million).
- The recurring decrease to state sales tax revenues is estimated to be \$15,540,000 (\$444.0 million in taxable sales X 3.5% reduction of state rate = \$15,540,000).
- According to the Department of Revenue, by changing the current inheritance tax rate schedules to the schedules proposed in this legislation, inheritance tax revenues would increase by an average of \$20.12 million each year.
- The net increase to state revenues is estimated to exceed \$4,500,000 per year (\$20,120,000 increase - \$15,540,000 decrease = \$4,580,000).
- A one-time increase to state expenditures for computer programming and software modifications is estimated to be \$100,000.
- This act shall take effect on July 1, 2006.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

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A handwritten signature in black ink, reading "James W. White". The signature is written in a cursive style with a large, stylized "J" and "W".

James W. White, Executive Director